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MARKET SURVEY SHOW OVER 30% OF INVESTMENT IN CHP UNDER THREAT

The Combined Heat and Power Association (CHPA) has received preliminary results from two major studies, which together indicate that the Government's target for at least 10 GWe of CHP capacity by 2010 will be missed by over 3 GWe. This has major implications for the Government's carbon savings targets, which could now face shortfall of 3 million tonnes of carbon. Without appropriate policies to support it, over £230M of investment in CHP - which could alleviate much of the burden imposed by the Climate Change Levy upon manufacturing industry – stands to be lost.

The CHPA has recently conducted a survey to assess the market prospects of 25 proposed CHP plants which have already received planning consents. The initial results show that out of a total capacity of 1,423 MWe of CHP plant currently proposed, 463 MWe, or 32.5%, is now on indefinite hold or has serious question marks over its economic viability.

Many survey respondents attributed the worsening market conditions to a fall in the price received for electricity exports from CHP plants - a consequence of the new electricity trading arrangements (NETA) in England & Wales. Despite persistent pressure from the industry, the electricity regulator has yet to establish arrangements that will allow CHP and other 'intermittent' power generators, including renewables, to trade effectively in the new market. These difficulties have been exacerbated by the continuing rise in the price of natural gas – the fuel of choice for many CHP plants. Most respondents pointed out that the Government already had the power to improve market conditions by granting an exemption from the climate change levy to power exports from CHP plant – currently Government is insisting that only power used on-site or sold directly to other customers is eligible for the exemption.

The second study, which is being conducted for the CHPA by Cambridge Econometrics and Forum for the Future, suggests that present Government policies will only provide for 6.6 GWe of CHP capacity by 2010. The Government has a target for "at least" 10 GWe of CHP.

David Green, Director of the CHPA commented:

"If the Government wishes to achieve its 10 GWe target by 2010, and to realise the carbon savings that would result, it needs to urgently re-assess its policy support for CHP.

"It is now apparent that a full CCL exemption for CHP, including exports, offers the best prospects to improve the market conditions facing CHP. Now that the

electricity regulator has clearly placed the responsibility for encouraging CHP and other 'unpredictable' generation upon the shoulders of Government, granting full exemption for CHP exports is the single policy lever that would do most to set the CHP market back on track. In the longer term, setting a CHP Obligation on electricity suppliers should also be seriously considered.

We are now setting the framework that will shape the pattern of investment in CHP over the next 5 years and beyond. What is clear is that inaction is not an option."

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Notes for Editors:

1. In order to pursue its energy policy of providing a secure, diverse and sustainable electricity supply, the Government used its powers under section 36 of the Electricity Act 1989, covering all generating plant over 50 MWe, and section 14 of the Energy Act 1976, covering gas plant over 10MWe, to withhold temporarily consents for gas powered generation. Good quality CHP were exempt from this proposal because of the environmental benefits they bring.

2. Each megawatt of CHP operating in the UK offsets the production of 1000 tonnes of carbon (full details in the DTI's journal Energy Trends, August 1999 issue). The Government established a target at the 1999 Climate Change conference in Bonn of 10,000MW of CHP by 2010. An increase in CHP capacity to this target would help reduce UK carbon emissions, according to the DETR's Climate Change papers, by 6 million tonnes of carbon - the biggest single reduction of any single technology over the Kyoto Protocol commitment period.

3. The Stricter consents policy is expected to be removed with the start of the new electricity trading arrangements. Secretary of State for Trade and Industry, Stephen Byers announced that under the new consents regime:

"The Government strongly supports CHP and we will expect developers to be able to show that they have explored opportunities to use CHP, providing heat for business and the community, although we recognize that that may not always be practical. We shall be discussing with developers information which needs to be submitted as part of notifications under section 14 of the Energy Act and applications under section 36 of the Electricity Act." (17 April 2000)

4. CHP is the simultaneous generation of power and useful heat in a single efficient process which secures environmental benefits and thereby contributes to sustainability. There is a wide range of sizes, fuels and technologies which may be used. Typical large fossil fuelled CHP schemes achieves a thermal efficiency of greater than 70%. In addition, CHP can also improve the sustainability benefits of power generation schemes based on renewable and waste energy sources.

5. For further information on the subject of this release, please contact:

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